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6 February 1952

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TOP SECRET SUPPLEMENT

TO THE DAILY DIGEST

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

State Dept. & ONI reviews completed

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SECTION 2 (EASTERN)

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1. AUSTRALIA. Australian troop commitment to Middle East Command anticipated:
The Australian Cabinet is reconsidering its policy of opposition to the
advance commitment of forces to the Middle East Command. [REDACTED]

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[REDACTED]

Comment: Australia's limited defense establishment would permit the commitment of little more than a token force to the Middle East. There is no indication that the government is prepared to propose a national conscription bill, passage of which would be prerequisite to the commitment of a sizeable force.

2. CHINA. Asian diplomats in Peiping view Manchurian industry: [REDACTED]

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[REDACTED] the Chinese Communist authorities, concerned over the slow progress of reconstruction in Manchuria, appealed some months ago to the USSR for emergency help. The Soviet reply stated that little of the needed equipment was available in the USSR or Czechoslovakia. The American Embassy in London points out, however, that when Panikkar, the Indian Ambassador to Peiping, was in London during December, he stated that Manchurian industry had undergone complete reconstruction. [REDACTED]

Comment: Each of these apparently contradictory views has merit. Although the Communists have restored and are operating an impressive number of war-damaged Manchurian factories, they have been unable to replace important equipment -- such as rolling mills and hydroelectric turbogenerators looted by the Soviets -- which is in short supply throughout the Orbit.

3. JAPAN. Chinese Nationalists agree to receive Japanese emissary: The Chief of the Chinese Mission in Tokyo has advised the Japanese Government that his government agrees to the appointment of Isao Kawada as plenipotentiary to Formosa for the purpose of negotiating a peace treaty between Japan and Nationalist China. [REDACTED]

Comment: Kawada is a prewar Minister of Finance and served as President of the Formosa Development Company during the war.

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SECTION 3 (WESTERN)

4. GERMANY. Bonn seeks Anglo-American intervention in Saar dispute: West German officials now suggest that the US and Britain jointly ask Bonn and Paris to discuss bilaterally a solution to the Saar question which would be submitted to the Saar population for approval. The formula for agreement should be based on transforming the Saar into an international territory, which, the German officials hope, would include a "small parcel of French territory."

The Germans suggest that the Anglo-American statement be made prior to the EDC debates in the West German Parliament; that it call upon both France and West Germany to refrain from further polemics on the Saar question; and that it stipulate that the status quo be preserved in the Saar pending the outcome of the bilateral discussions.

French diplomats state that their government will not accept any cession of French territory as a condition of settlement. [REDACTED]

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Comment: Chancellor Adenauer is trying vigorously to obtain some kind of conciliatory gesture from the West prior to the 7 February German parliamentary debates to which he has now irrevocably committed himself. Coalition leaders have indicated that if no conciliatory move is obtained the Parliament will probably pass a resolution sanctioning continued talks on the EDC, but with an admonition that Germany must obtain "satisfaction" in any resolution of the Saar and NATO membership problems.

5. FRANCE. Defense Minister hints at resignation if budget is inadequate: French Defense Minister Bidault declares that he might resign should the 1952 military budget be limited to the present prospective maximum of about 3.7 billion dollars; he estimates that an increase of approximately one third is necessary in order to meet NATO requirements. He believes, however, that France's military budget will in any case exceed the 3.4 billion dollars which NATO has considered the largest feasible under present political conditions.

While Bidault considers that an extension of the military service period to 24 months may eventually be possible, he warns that this would have far-reaching implications for the entire population since France, unlike other European countries, allows no deferments. [REDACTED]

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Comment: American officials in France recently concluded that no French government would be likely to press for a military budget greater than 3.4 billion dollars, exclusive of US aid. The government has advised the National Assembly, however, that a final budget figure would not be proposed

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until the NATO Council meeting at Lisbon this month has considered levels of defense efforts and financial contributions.

- 25X1 6. NORWAY-SWEDEN. Norway urges closer Western cooperation with Sweden: The Norwegian representative at a meeting of the NATO Council Deputies expressed his country's belief that Sweden cannot be won from its present formal neutrality, and urged that Sweden be considered a "sort of member" of the North Atlantic Community. In support of closer cooperation, he emphasized Swedish military capabilities and asserted that Swedish leaders are in sympathy with NATO objectives.

Comment: Norway has consistently argued that it is in the West's interest to give Sweden the assistance necessary to ensure a militarily strong power on Norway's eastern frontier. Both Britain and Norway have always contended that Sweden cannot be pressed into abandoning its neutrality policy.

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CENTRAL INTELLIGENCE AGENCY

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SECTION 1 (SOVIET)

1. USSR. Relations between USSR and Chinese Communist Embassy officials in Rangoon: At the reception given by the Soviet Embassy in Rangoon on 7 November 1951 in celebration of the October Revolution, Soviet officials were reportedly "friendly and courteous" towards the Chinese Communist Embassy officials, "but no rapport appeared to exist between them." There was a certain "iciness" in the Chinese attitude towards the Soviet officials and one observer claimed that the Chinese appeared to be "scared stiff of the Soviets." [REDACTED] 25X

Comment: Perhaps because of inexperience, Chinese Communist diplomatic officials are widely reported as being ill at ease on social occasions. This may account for the coolness [REDACTED] between Chinese Communist and Soviet diplomatic personnel. This behavior, however, is not apparent in relations between the two governments. 25X

2. Four Okrugs announced for Moldavian SSR: A decree of the Presidium of the Supreme Soviet of the Moldavian SSR announced on 31 January the formation of the Beltse, Kagul, Kishinev, and Tiraspol Okrugs within the boundaries of the republic. The town of Kishinev will remain under the immediate jurisdiction of the organs of the republic. [REDACTED] 25X

Comment: The creation of these four Okrugs in the Moldavian SSR follows a similar development recently announced in the Armenian SSR, and is thought to be part of a gradual long-term administrative change. A parallel change was indicated in November 1951 with the announcement of the formation of the Kutaisi Oblast in the Georgian SSR.

3. BULGARIA. Cabinet changes and civil law reform adopted: According to the Russian News Agency, the Bulgarian Parliament approved several ministerial changes on 4 February. Dr. Kiril Dramaliev was removed from the post of Minister of Education and given "another activity," being succeeded by Demir Yanev. Boris Taskov, Chairman of the State Supply and State Reserves Administration, was replaced by Nikola Trajanov. Sava Ganovski was fired as Chairman of the Committee for Science, Art and Culture and replaced by Ruben Levi.

According to TASS, the Bulgarian Parliament has also approved a law modelling the entire Bulgarian code of civil law procedure after that of the Soviet Union. [REDACTED] 25X1

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Comment: Dramaliev and Taskov are members of the Central Committee of the Bulgarian Communist Party. Sava Ganovski, though not a member of the Central Committee, has long played a prominent role in Bulgarian Party affairs.

Ruben Levi is a member of the Central Committee, and has recently been in charge of Bulgarian propaganda activities. Demir Yanev has been a candidate member of the Central Committee since 1948, but has heretofore held positions of only minor importance.

No further information concerning a Bulgarian law reform is yet available.

4. CZECHOSLOVAKIA. Czech Minister notes priorities for implementing state labor reserves plan: Minister of Information Kopecky, writing in Pravda on 20 January, says that the Czechoslovak coal, ferrous metallurgy, and construction industries will be the first fields in which the government will operate its new state labor reserves plan, patterned on the example of the Soviet Union. [REDACTED]

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Comment: In these three fields, 1951 plans were underfulfilled and 1952 targets have been expanded.

The appearance of the reserves system is one facet of a campaign to sovietize Czech labor which has grown in intensity since last September, when yearly failures in the five year plan began to appear likely. In recent months steps have been taken to reorganize trade unions and increase socialist competition, and government leaders have warned of a sterner view of labor discipline.

The National Assembly recently approved the labor reserves plan which authorizes state training centers giving young "recruits" two or three year courses and factory training centers with six or twelve month courses.

5. Union for Cooperation with the Army begins large scale operation: Rude Pravo announced on 20 January that the Union for Cooperation with the Army has organized branches throughout Czechoslovakia. According to the US Embassy in Prague, activities include lessons in defense preparedness for school children, consisting of arms familiarization, map reading and first aid, and cooperation with the Union of Czech-Soviet Friendship in preparation for Red Army week this month.

The Embassy comments that there is no evidence other than one article in Youth Front that military training of youth groups is actually under way. [REDACTED]

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Comment: The Union for Cooperation with the Army was established in November 1951 on the model of DOSAAF (All Union Society for Co-operation with Army, Air Force and Navy) in the Soviet Union. It is designed to train the civilian population for wartime defense measures and encourage civilian support of the Army. The Red Crown, Sokol, People's Militia, and amateur flyer groups are affiliated with the Union.

6. RUMANIA. Government unable to hold line on recent price cuts: The American Legation in Bucharest reports that prices for various consumer goods have already begun to rise again after the 27 January currency revaluation and price reduction. Rationed butter, egg and milk prices had increased by 1 February, while edible oil, meat, and tomato paste were generally unavailable or in very short supply. [REDACTED]

25X

Comment: Despite the propaganda accompanying the reform, the Rumanian Government is unable to hold to the announced 5 to 20 percent price reductions. A 2 February editorial in Scanteia, the official Workers' Party newspaper, acknowledged that, although there was a good harvest, the low level of collections of agricultural products had made it impossible for the State "to concentrate in its hands sufficient quantities of agricultural products to assure a full supply on the basis of ration cards and to be able to exercise necessary influence on prices in the uncontrolled market."

7. TRIESTE. Proposed Trieste elections would serve Yugoslav interests: Ambassador Allen in Belgrade states that the Allied Military Government's proposal to hold elections in Zone A under an Italian electoral law concurrently with local elections in Italy this spring may be prejudicial to long-term Italian interests, since it will provide the Yugoslavs with a strong pretext for the further absorption of Zone B into Yugoslavia. Allen believes that the Yugoslavs may be expected to take full advantage of any opportunity to push for a territorial settlement based on giving Zone A to Italy and Zone B to Yugoslavia. [REDACTED]

25X

Comment: Since a majority of the Slovenes in Zone A are pro-Cominformist, Yugoslavia would prefer a partition on the basis of the present zonal demarcation to one which would trade predominantly Italian Zone B for predominantly Slovene portions of Zone A.

8. Probable effects of an Italian link-list system on Trieste politics: In speculating on the probable impact of an adoption of the Italian linked-list electoral system in Zone A by the Allied Military Government for the

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impending elections, the US Political Adviser in Trieste advances the following observations:

1. The views of the populace regarding a Trieste solution would probably not be materially affected by the adoption of an Italian electoral system.

2. If elections were held under the present AMG law, it seems likely that the moderate pro-Italian parties would lose their working majority in the Trieste communal council and would thus be forced to seek the co-operation of the neo-fascist Italian Social Movement.

3. Despite the threat of an independentist-Communist coalition should the linked-list electoral system be adopted, a coalition of moderate pro-Italian parties would win a majority in the communal council.

4. Although the Cominformist strength in the outlying communes would be increased under a linked-list system, this development would be more than compensated for by making it unnecessary for the moderate pro-Italian parties to seek MSI support in order to maintain a pro-Italian working majority in Trieste itself. [REDACTED]

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Comment: According to Italian linked-list electoral law, two-thirds of the seats on the communal council in communes with a population of over 10,000 are allotted to the slate or group of parties which receives a plurality of the vote. Adoption of the Italian law would probably remove any lingering objections on the part of the Italian Government and local pro-Italian parties to holding elections this spring.

9. YUGOSLAVIA. Yugoslavia has no commercial relations with Soviet bloc: American Embassy officials report that Yugoslavia maintains no commercial relations with the USSR or its Satellites; the only Yugoslav goods reaching the Soviet bloc do so through either diversion or transshipment in a third country. In order to forestall these diversions, the Yugoslavs insert a clause in each contract prohibiting resale and, in the case of Switzerland, require a special certificate from an economic board that the commodity is intended solely for internal consumption. [REDACTED]

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Comment: Reports of the diversion of Yugoslav goods to the Soviet bloc continue to be received. There is no evidence to indicate, however, that high Yugoslav officials are aware that shipments of Yugoslav strategic materials have been made to the Satellites, although they would hardly admit the possibility of such diversions to American officials.

Lack of a comprehensive and rigid system of enforcement of trade controls has been advanced by some observers as the probable cause for the infrequent diversions of strategic goods which do occur.

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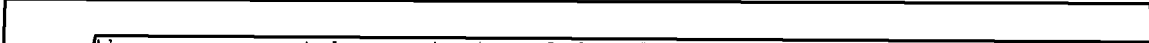

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SECTION 2 (EASTERN)



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2. INDONESIA. Government is increasingly disturbed by press criticism of MSA: The government appears to be increasingly disturbed by press criticism of Indonesian acceptance of US aid within the terms of the Mutual Security Act. Press speculation infers it involves modification of Indonesia's independent foreign policy. No political party or faction is prepared to defend openly any modification.

 the government hopes to avoid involvement in the current press controversy over MSA. They have informally requested USIS to refrain from giving any publicity to MSA matters. 

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Comment: The Indonesian government has made no effort to publicize its acceptance of MSA aid. Apparently it even attempted to conceal the terms of acceptance.

The current press controversy was initiated on 30 January by an article in Indonesia Raja, a paper which has strongly criticized government policy for a long time. The article asked what, if any, commitments Indonesia had made to ensure continued US aid under MSA and why "Burma and others" had rejected aid.

Indonesia's "independent" foreign policy seeks to avoid commitments to either the American or Soviet "blocs."

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3. BURMA. Karen radio broadcast advocates cooperation with Communists: An "independent newspaper" in Rangoon has quoted a "private" broadcast from the insurgent Karen radio as calling upon the Karens to emulate the strategy and methods of Communist China. Voicing disappointment over British-American support of the Thakin Nu government, the broadcast stated that the Karens must align themselves with the Communist-controlled Peoples Democratic Front in a common effort to overthrow the "imperialist regime." [REDACTED]

25X

Comment: Local Karen-Communist cooperation has been previously noted. Recently there have been [REDACTED] negotiations being conducted for the formation of a general alliance. As yet, however, there is no conclusive evidence that the top Karen leaders are prepared to join forces irrevocably with the Communists.

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4. CHINA. Number of Western ships in China trade continues to fall: A total of 64 non-Communist registered ships, aggregating 320,000 gross tons, traded with Communist China in October 1951, the lowest monthly total since the outbreak of hostilities in Korea. The peak figure was recorded for the month of December 1950, when 142 non-Communist registered ships, aggregating 742,000 gross tons, traded with Communist China.

Four-fifths of the Western shipping in the China trade was of British, Greek, or Panamanian registry. Actual ownership of the vessels, however, was mainly held by Greek cartel or Chinese Communist interests.

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[REDACTED]

Comment: The number and tonnage of Western shipping in the China trade fell steadily throughout most of 1951. The bulk of this shipping is primarily engaged in coastal traffic between Hong Kong and the mainland.

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6. KOREA. UNCURK must be revitalized to carry out its mission: The United Nations Commission for the Unification and Rehabilitation of Korea is, according to Ambassador Muccio, "a mere shadow of its former calibre" with only one delegate, the Australian, seriously interested in carrying out the commission's objectives. Since the coming months in the South Korean political scene are crucial -- regardless of the outcome of the armistice negotiations -- Muccio states that the revitalization of UNCURK is extremely important in order to further that part of the terms of reference which call for "the continuing development of representative government based on the freely expressed will of the people." UNCURK prestige and influence with the ROK's has deteriorated. Unless two or three constituent powers rush high-calibre delegates to Korea, the UN as a political body will continue to lose out in ROK. This would make it harder than ever to convince the nations of the world that Korea is not just an "American show".

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SECTION 3 (WESTERN)

1. GERMANY. Approval of Schuman Plan by Bonn Senate augurs well for EDC developments: Unexpectedly, the West German Senate, following an address by Chancellor Adenauer, indirectly ratified the Schuman Plan by not referring it to a combined committee of both parliamentary houses. In a short, calm session, the Senate also adopted a resolution which stipulated among other things that German interests in the Saar be protected and that it enter the Schuman Plan on an equal footing with France. 25X

Comment: Adenauer declared early last week that the dispute over the French appointment of an ambassador to the Saar would likely preclude Upper House ratification of the Schuman Plan as scheduled. The ease with which Adenauer secured the bill's passage indicates that he overstated how far the Senate would go in expressing dissatisfaction with the French move in the Saar. The government prediction of parliamentary intransigence in the forthcoming discussions on the EDC also appears to be exaggerated, probably to secure favorable Allied action in the Saar.

There is, however, considerable real resentment in the Bonn government over France's action, stemming from the suspicion that it indicates a French unwillingness to accept Germany as an equal in European projects. The manner in which Adenauer led the Senate to a favorable vote on the Schuman Plan demonstrates that he is trying to keep German resentment within bounds, in accordance with his basic policy of Franco-German rapprochement.

2. FRANCE-USSR. French optimistic on securing trade agreement with USSR: France, which resumed trade negotiations with the USSR on 21 January, has indicated a willingness to construct up to six cargo ships for the USSR for delivery in two years in exchange for immediate Soviet wheat deliveries. The Russians are considering the proposal, but have not indicated that the wheat is immediately available. The French trade delegation chief believes that, with the exception of the wheat-ship exchange, there is a strong possibility of obtaining a trade agreement in view of press agitation for a treaty and the publicity the Russians are giving to the Moscow Economic Conference. The US Embassy advises that, without the wheat-ship exchange, the proposed trade agreement is decidedly to the advantage of the French.

Comment: The Russians originally requested up to 15 cargo ships, each of 5,000 tons-displacement and capable of 13 knots. France plans to trade the Soviet wheat for German coal.

3. AUSTRIA. Soviet retail establishments seen as major propaganda weapon: Austrian observers are much disturbed over the economic and political

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consequences of the continued expansion of retail outlets of Soviet Administered Enterprises in Austria (USIA). Repeatedly denounced for undercutting Austrian retailers, for evasion of Austrian taxes, for flooding markets with cheap imports from Satellite countries, and for probable financial support of the Communists and the Soviet occupation forces, the USIA retail complex may be exploited in the future as a major argument for association with the East. USIA may now be making a major effort to expand its operations to the Western zones. USIA outlets have been established under so-called "camouflage contractual relationships," and stores reselling USIA goods are supplied by salesmen operating between Vienna and the West.

The Austrian Government and the non-Communist press have recently stepped up their efforts to increase public awareness of the dangers of "buying USIA." Plans are now under consideration to establish a cabinet-level committee to coordinate this campaign, to cut off supplies to wholesalers responsible for the tax evasions of their USIA customers.

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4. Gruber prepared for greater risks on Austrian settlement: In a policy statement on 2 February the Austrian Foreign Minister made a clear bid for stronger Western support in securing a Soviet evacuation of Austria. Not necessarily optimistic as to the prospects, Gruber believes that the West is not fully aware of the importance of a Western-oriented Austria to a free Europe and exaggerates the strength of the Soviet position in Austria.

Gruber gave up any hope of a settlement of the Austrian question by the Foreign Ministers and ruled out the possibility of further concessions to the USSR or of "vague political undertakings" with a power of opposing philosophy. He renewed his plea for a transfer of the Austrian question to the UN.

As to Soviet intentions in Austria, Gruber stressed the advantages to the Soviet Union of a maintenance of the status quo and scoffed at the likelihood of a Soviet partition of Austria. The USSR's economic position in Austria is dependent, Gruber asserted, on access to raw materials in the Western zones. Further, the disadvantages to the Soviet Union of a move toward partition would preclude such action except as a prelude to war. He vaguely intimated that even a small Austrian army would be effective against an "invader." Calling the presence of Western troops on the Austro-German border a guarantee that Austria could pursue a "balanced policy," he made clear that such balance did not involve "all around flattery," but a courageous defense of Austrian unity.

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5. NETHERLANDS. Dutch suggest international consideration of New Guinea problem: Although the Netherlands has indicated that the Indonesian claim of sovereignty over Netherlands New Guinea cannot be recognized, the Netherlands is willing to continue discussing New Guinea and other related political problems provided the New Guinea issue is submitted to an international group for settlement. The Dutch are anxious to hold "full and free talks" on complaints from both sides, and particularly want clarification of Indonesia's allegations of Dutch arms smuggling. [REDACTED]

25X

Comment: The Indonesian delegation asked for Dutch agreement to a short note primarily concerned with obtaining Dutch admission of Indonesia's sovereignty over New Guinea. The chief of Indonesia's delegation has admitted that the Netherlands could not specifically agree to the Indonesian demands, but personally believes that a satisfactory Dutch answer would be recognition that sovereignty over New Guinea is an "unsolved issue."

6. SWEDEN. Foreign Minister hints Sweden might leave UN if USSR does: Foreign Minister Uden in a recent radio debate stated that if a permanent council member left the UN, the whole organization would be "automatically" dissolved. He refused to indicate what Sweden's reaction would be in such a situation, but reiterated Sweden's opposition to sanctions that might lead to a world war or involve Sweden in a war with a great power. He emphasized that Sweden is bound by a Security Council decision only when all the great powers are in agreement. [REDACTED]

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Comment: Uden's statement, more extensive than the circumstances made necessary, indicates that the Swedish Government still clings tenaciously to its "alliance-free" foreign policy, despite informal adherence to COCOM principles and despite formal support for the Acheson Plan to provide "an international police service." His remarks may have been deliberately calculated to offset recent indications of pro-Western inclinations and to emphasize Sweden's continued "neutrality."

7. COSTA RICA. Foreign Minister offers resignation; plans to reorganize government party: A Costa Rican official has confirmed a press report that Foreign Minister Echandi has offered his "irrevocable resignation" from the cabinet to reorganize the government party. The US Embassy states that the President "allegedly" accepted the resignation. [REDACTED]

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Comment: Although the Costa Rican elections will not take place until August 1953, Jose Figueres, former president and "professional revolutionary," has been conducting a heated anti-government campaign since mid-1951. President Ulate, who cannot succeed himself, has steadfastly refused to become involved in "politics," and members of the government party fear that

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without strong leadership the party will disintegrate into bickering factions. Echandi's move is apparently designed to halt the disintegration, and possibly to promote his own candidacy.

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8. CUBA. Proposed reorganization of Army Air Force approved: The reorganization of the Cuban Army Air Force, as proposed by the US Air Force Mission to Cuba, has been approved by the Army General Staff and the Minister of Defense. The new organization, based on current US Air Force organization principles, will for the first time provide for delegation of command functions within the Cuban Army Air Force. The Minister of State has suggested an additional budget study since he believes the Army Air Force should receive additional funds to implement the new organization, which is to be established by presidential decree when the budget study has been completed.

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Comment: It has been reported that under the influence of the US Air Force Mission and a competent Chief of Air Force (Col. Cantillo), a heretofore nearly inactive organization is being successfully revitalized. The planned reorganization with the acquisition of new funds should enable the Cuban Army Air Force to expand its capabilities for assisting in western hemisphere defense.

9. PANAMA. East Germany reportedly requests that a representative be accredited to Panama: According to the Panamanian Foreign Minister, the Panamanian Minister in Paris has received an official communication from authorities of the Soviet Zone in Berlin requesting that a representative be accredited to Panama. US Ambassador Wiley comments that "Panama is apparently becoming a focal point of Satellite interest."

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Comment: There is no indication as to whether the reported East German request refers to a representative who would be resident in Panama, or to one who would be resident in another country and merely accredited to Panama. East Germany has no diplomatic representatives in Latin America at present.

The Polish request that Panama accredit Boleslaw Gelen as Polish Minister to Panama was erroneously interpreted as indicating a Polish desire to establish a diplomatic mission in Panama. Gelen has already presented his credentials in Mexico, where he is replacing

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Minister Drohojowski, who was resident in Mexico and merely accredited to various other Central and South American countries.

There is no evidence, other than the reported East German request, that Satellite interest in Panama has recently increased.

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